RENEWAL OF FIXED TERM EMPLOYMENT CONTRACTS

Date: 8 November 2017

By: Takahiro Hoshino

LIFE-LONG FULL TIME EMPLOYEE VS. FIXED-TERM CONTRACT EMPLOYEE

It is well known that one of the reasons for the Japanese economy's significant recovery after the Second World War is a unique life-long, full time employment system, where employees are employed by a business until they reach retirement age are provided with an adequate level of social benefits during their employment and retirement allowances upon their retirement. In contrast to life-long full time employment, fixed-term employment is also available. In principal, under the Japanese labor law, the maximum length of a fixed-term employment contract is five years, with typical practice seeing fixed-term engagements for one year (usually with an option to renew annually).

Apart from duration, significant differences exist with respect to life-long, full time employment and fixed-term employment, including often lower salary levels, more limited social benefits and no retirement allowances being provided. We understand that many Japanese subsidiaries of foreign business entities use fixed-term employment contracts to provide flexibility with their workplace arrangements.

RECENT AMENDMENT OF THE LABOR CONTRACT LAW IN JAPAN

In light of the disparity between terms, the Labor Contract Law was amended in August 2012 (effective April 1, 2013), to enable fixed-term contract employees with contract periods of over five years in total to be eligible to demand the employer convert their employment contract to an employment contract without a definite period (Article 18). The contract period calculation for the conversion shall not include any fixed-term contract periods which commenced before April 1, 2013, so for an employment contract with one year, the earliest possible date for such a conversion right to become due, will be on or after April 1, 2018.

KEY IMPLICATIONS FOR FOREIGN EMPLOYERS

In respect of this amendment, there are key implications for foreign employers:

1. The law is applicable for foreign employees (not Japanese nationals) who are working in Japan on fixed-term employment contracts.
2. The effect of the conversion is that the fixed-term period will be converted to be 'without a definite' period, although this will not automatically entitle the employee to the same benefits available to life-long full time employees.
3. Once the conversion is made, to terminate the employment, the employer must comply with Japan's dismissal process under Article 20 of the Labor Standard Law and established court practice.

©2005-2026 K&L Gates LLP. All Rights Reserved.

4. To prevent from the occurrence of the conversion right, foreign business employers employing workers in Japan with fixed-term employment contracts should take pro-active steps prior to the end of the 4th year of contract renewal. That said, a refusal of renewal must be carefully handled in compliance with the requirements under the Labor Contract Law.

KEY CONTACTS



TAKAHIRO HOSHINO
PARTNER

TOKYO
+81.3.6205.3620
TAKAHIRO.HOSHINO@KLGATES.COM

This publication/newsletter is for informational purposes and does not contain or convey legal advice. The information herein should not be used or relied upon in regard to any particular facts or circumstances without first consulting a lawyer. Any views expressed herein are those of the author(s) and not necessarily those of the law firm's clients.

©2005-2026 K&L Gates LLP. All Rights Reserved.